

Pest analysis

Business, Management



PEST Analysis A scan of the external macro-environment in which the firm operates can be expressed in terms of the following factors: * Political * Economic * Social * Technological The acronym PEST (or sometimes rearranged as "STEP") is used to describe a framework for the analysis of these macroenvironmental factors. A PEST analysis fits into an overall environmental scan as shown in the following diagram: Environmental Scan |

Macroenvironment	Microenvironment	External Analysis	Internal Analysis
		P. E. S. T.	
		Political Factors	

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include: * tax policy * employment laws * environmental regulations * trade restrictions and tariffs * political stability Economic Factors Economic factors affect the purchasing power of potential customers and the firm's cost of capital. The following are examples of factors in the macroeconomy: * economic growth * interest rates * exchange rates * inflation rate Social Factors Social factors include the demographic and cultural aspects of the external macroenvironment. These factors affect customer needs and the size of potential markets. Some social factors include: * health consciousness * population growth rate * age distribution * career attitudes * emphasis on safety Technological Factors Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include: * R&D activity * automation * technology incentives * rate of technological change External Opportunities and Threats The PEST factors combined with external microenvironmental factors can be classified as

opportunities and threats in a SWOT analysis. Environmental scanning is one component of the global environmental analysis. Environmental monitoring, environmental forecasting and environmental assessment complete the global environmental analysis. Environmental scanning refers to the macro environment. The global environment refers to the macro environment which comprises industries, markets, companies, clients and competitors. Consequently, there exist corresponding analyses on the micro-level. Suppliers, customers and competitors representing the micro environment of a company are analyzed within the industry analysis. Environmental scanning can be defined as ' the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market. External Analysis examines opportunities and threats that exist in the environment. Both opportunities and threats exist independently of the firm. The way to differentiate between a strength or weakness from an opportunity or threat is to ask. Internal Analysis of strengths and weaknesses focuses on internal factors that give an organization certain advantages and disadvantages in meeting the needs of its target market. Strengths refer to core competencies that give the firm an advantage in meeting the needs of its target markets. Internal Analysis of strengths and weaknesses focuses on internal factors that give an organization certain advantages and disadvantages in meeting the needs of its target market. Strengths refer to core competencies that give the firm an advantage in meeting the needs of its target markets. Macro-environment these are broad trends shaping the national and international environment in terms of political, economic, social and technological trends (i. e. PESTEL

factors, key drivers). Micro-environment — this is the operating environment or industry sector in which the firm competes. It addresses a range of issues such as suppliers, customers, competitive intensity, threat of new entry and of substitute products arising (i. e. the ‘ five-forces’ analysis).